LINDA LINGLE
GOVERNOR

RUSS K. SAITO
Comptroller

SANDRA YAHIRO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

TESTIMONY
OF
RUSS K. SAITO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
ON
February 18, 2010

H.B. 2736

RELATING TO PUBLIC PROCUREMENT

Chair Oshiro and members of the Committee, thank you for the opportunity to testify on H.B.2736. The Department of Accounting and General Services (DAGS) has concerns about this bill and defers to the Attorney General's assessment as to whether requiring local residents for construction projects will survive a legal challenge. DAGS understands that H.B. 2736 would be assessed against the privilege and immunities clause of the US Constitution, Article IV, Section 2, which states that citizens of each state shall be entitled to all privileges and immunities of citizens of the other states. This would appear to assure the right of a citizen of one state to do business in another state on an equal basis with a citizen of the other state.

DAGS understands the desire to have local citizens working on Hawai'i construction projects. If the State procurement code and existing laws are applied rigorously to solicit construction projects, Hawai'i companies can compete with out of state companies on an equal footing, and because they and their employees are already in the state, would have a competitive advantage, all other things being equal.

Thank you for the opportunity to testify on this matter.

TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-FIFTH LEGISLATURE, 2010

ON THE FOLLOWING MEASURE:
H.B. NO. 2736, RELATING TO PUBLIC PROCUREMENT.

BEFORE THE:
HOUSE COMMITTEE ON FINANCE

DATE: Thursday, February 18, 2010 **TIME:** 5:00 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): WRITTEN TESTIMONY ONLY. For more information, call Patricia Ohara, Deputy Attorney General at 586-1268.

Chair Oshiro and Members of the Committee:

The Department of the Attorney General opposes this bill. This bill requires the award of public works contracts only to contractors that have workforces where at least eighty percent of the workforce is comprised of Hawaii residents. We believe this bill violates the United States Constitution.

Notwithstanding the testimony of the ILWU in its support of companion bill S.B. No. 2840, wherein it cites Professor Jon Van Dyke as stating that such a preference is allowed if it is "substantially related to the important government goal of reducing unemployment," there is another part to that concept that was omitted from the testimony, which is that a state must demonstrate a valid independent reason for discriminating against nonresidents. The state must be able to establish that, for constitutional purposes, the nonresidents are a "peculiar source of evil" and that there is a reasonable relationship between the danger presented by the noncitizens as a class and the discrimination to be imposed upon them. Hicklin v. Orbeck, 437 U.S. 518, 526, 98 S. Ct. 2482, 2487, 57 L.Ed.2d 397 (1987), quoting Toomer v. Witsell, 334 U.S. 385, 398, 68 S. Ct. 1156, 1163, 92 L.Ed. 1460 (1948). For example, for this bill, we believe there must be some legislative findings regarding the extent to which wages would be diverted out of state and how that loss of money would compare with the advantage of lower bids on public works by contractors who do not have an eighty percent local resident workforce.

The legal standard to support such a restriction is high because employment is a right protected by the United States Constitution's Privileges and Immunities Clause (article 4, section 2), which provides that "the Citizens of each state shall be entitled to all Privileges and Immunities of Citizens in the several States." Further, the Fourteenth Amendment of the United States Constitution prohibits states from enacting any law that abridges the privileges or immunities of citizens of the United States.

Because employment is a right protected by the Constitution, discrimination against nonresidents is justified only where there is a showing that nonresident construction workforces constitute an "evil" and that this bill is a reasonable means to cure that "evil."

Unless such a showing is made, this bill should be held.

Hawaii State Legislature
House Committee on Finance
Thursday, February 18, 2010
5:00 p.m.

Re HB 2736 Relating to Public Procurement

Testimony of Jon M. Van Dyke
On Behalf of
District Council 50

Introduction.

Laws giving preference to local residents for work funded by state taxpayers have been found to be constitutional under the Market Participant Exception to the Dormant Commerce Clause, *White v. Massachusetts Council of Construction Employers, Inc,* 460 U.S. 204 (1983), and they can also be constitutional under the Privileges and Immunities Clause if they are substantially related to the important governmental goal of reducing unemployment. *United Building & Construction Trades Council of Camden County & Vicinity v. Mayor and Council of the City of Camden,* 465 U.S. 208 (1984). The determination whether a specific local preference law is constitutional is, therefore, fact-specific and depends on whether the law is properly related to a specific unemployment problem needing attention. Because of the serious unemployment in Hawai'i's construction industry, and because of Hawai'i's unique geography, the approach taken in HB 2736 logically addresses Hawai'i's unemployment challenges and should be found to be constitutional under existing caselaw if a proper legislative record confirms the relationship between this law and the current rates of unemployment in the construction industry.

Hawai'i's Unemployment Challenges in the Construction Industry.

The unemployment rate in Hawai'i as of December 2009 was 6.9%. As Governor Lingle acknowledged in her State of the State Address, the construction industry has been hit especially hard during the current economic downturn. Between December 2008 and December 2009, 4,900 construction jobs were lost.[1] This problem appears to be exacerbated by the practice of some contractors who receive state public works contracts to hire nonresident construction workers.

HB 2736 Relating to Public Procurement.

[1] Hawai'i Dept. of Labor and Industrial Relations, Hawai'i's Seasonally Adjusted Unemployment Rate at 6.9 Percent in December, Jan. 22, 2010.

This Bill is designed to address the problem of unemployment in Hawaii's construction industry. It requires any contractor awarded a public works contract to "ensure that Hawaii residents comprise not less than eighty per cent of the workforce employed to perform the contract." This requirement also applies to subcontracts of $50,000 or more, but it does not apply to "procurements for professional services under section 103D-304 and procurements for small purchases under chapter 103D-305." In addition, "hours worked by employees within shortage trades, as determined by the department of labor and industrial relations, shall not be included in the calculations for purposes of this section."

The Privileges and Immunities Clause.

United Building & Construction Trades Council of Camden County & Vicinity v. Mayor and Council of the City of Camden, 465 U.S. 208 (1984), involved a municipal ordinance enacted by the City Camden, New Jersey, requiring that at least 40% of the employees of contractors and subcontractors working on City construction projects be City residents. The Supreme Court ruled that the Privileges and Immunities Clause in Article IV of the U.S. Constitution protected the right of all U.S. citizens to seek employment from private employers, even those receiving governmental contracts, and that discrimination against citizens of other states can be justified only "where there is a 'substantial reason' for the difference in treatment" and if it can be shown that the nonresidents "constitute a peculiar source of the evil at which the statute is aimed." 465 U.S. at 222. In explaining this test, the Court noted that it would be proper in the usual case to defer to the judgment of local legislative bodies, especially when they are utilizing taxpayer funds to stimulate their local economy and to create jobs:

> * "*The fact that Camden is expending its own funds or funds that it administers* in accordance with the terms of a grant is certainly a factor – *perhaps the crucial factor* – to be considered in evaluating whether the statute's discrimination violates the Privileges and Immunities Clause." *Id.* at 221 (emphasis added).
>
> * "Every inquiry under the Privileges and Immunities Clause 'must...be conducted with due regard for the principle that the states should have considerable leeway in analyzing local evils and in prescribing appropriate cures.' *Toomer v. Witsell,* 334 U.S. 385 (1948). *This caution is particularly appropriate when a government body is merely setting conditions on the expenditure of funds it controls.*" *Id.* at 222-23 (emphasis added).

The U.S. Supreme Court remanded the *Camden* case back to the New Jersey Supreme Court to apply this test, because no factual record had been prepared when the case came to the U.S. Supreme Court. No further recorded proceedings took place in this particular case, however, so we do not know how the test was in fact applied. And in the following 26 years, no other cases have come before the U.S. Supreme Court to reevaluate the appropriate test or to apply it to any other fact situations.

Some lower courts have struck down statutes mandating employment preferences,[2] and others have upheld them.[3] A number of states do now have such statutes, as listed below.

The clearest case upholding a resident-preference hiring law is *State v. Antonich,* 694 P.2d 60, 61-64 (Wyo. 1985), upholding a requirement that available and qualified Wyoming residents be hired in preference to nonresident laborers. The Wyoming Supreme Court explained that "[w]ithout question, reduction in unemployment among Wyoming citizens constitutes a valid state goal," *id.* at 62, and ruled "that Wyoming's Preference Act...precisely fits the particular evil identified by the State." *Id.* at 63. The court went on to say:

> "We hold that the Wyoming Preference Act does not violate the privileges-and-immunities clause of the federal constitution, notwithstanding the Act's infringement upon a recognized fundamental right. The Act narrowly addresses the goal of reduced unemployment among the state's taxpayers by preferring available, qualified residents for government-funded positions. Since the degree of discrimination bears a close relation to the state's valid reasons for discriminatory treatment, we affirm the Act's validity under the test established in *Toomer v. Witsell, supra,* and refined in subsequent cases."

Id. at 64. This decision has been cited with approval by the U.S. Court of Appeals for the Eighth Circuit, in *A-G-E Corporation v. United States,* 968 F.2d 650, 654 (8th Cir. 1992), where the court stated that "[a] direct attack on Wyoming's resident preference statutes [alleging that it violates the Privileges and Immunities Clause] would clearly face an uphill battle after *White v. Massachusetts Council of Constr. Employeers, Inc.,* 460 U.S. 204 (1983), and *United Bldg. & Constr. Trades Council v. Camden,* 465 U.S. 208 (1984)."

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[2] *See, e.g., People ex rel Bernardi v. Leary Construction Co, Inc.,* 10 Ill.2d 295, 464 N.E. 2d 1019 (1984) (striking down a law requiring an absolute preference for Illinois residents in public works projects because nothing in the record, including the complaint itself, showed that nonresident laborers were a cause of unemployment in Illinois); *W.C.M. Window Co. v. Bernardi,* 730 F.2d 486 (7th Cir. 1984) (ruling that this same Illinois law violated the Privileges and Immunities Clause, in light of the complete failure of the state to make any attempt to justify the law); *Robison v. Francis,* 713 P.2d 259 (Alaska 1986) (striking down a law requiring that 95% of the workers on public works contracts be Alaska residents, as violating the Privileges and Immunities Clause); *Opinion of the Justices to the Senate,* 393 Mass. 1201, 469 N.E.2d 821 (1984) (rendering a nonbinding advisory opinion, without the benefit of any record of legislative findings, that a proposed bill requiring that 80% of workers on public works contracts by Massachusetts residents would violate the Privileges and Immunities Clause); *State v. Enserch Alaska Construction, Inc.,* 787 P.2d 624 (Alaska 1990) (striking down a law requiring that 50% of the construction workers in economically distressed areas to be hired for public works projects in that area, as violating the Equal Protection Clause of the Alaska Constitution); *A.L. Blades v. Yerusalim,* 121 F.3d 865 (3rd Cir. 1997) (striking down a Pennsylvania law requiring that all laborers on public works contracts have lived in Pennsylvania for at least three months prior to their employment, as violative of the Privileges and Immunities Clause).

[3] The decision in *Walsh v. City and County of Honolulu,* 423 F.Supp.2d 1094 (D.Hawaii 2006), which struck down a residency requirement for public employees, is not directly applicable to HB No. 2376, because that decision was based on the court's conclusion that the residency requirement had the impermissible purpose of deterring in-migration. HB No. 2376, by contrast, is designed to address Hawai'i's significant unemployment problem in the construction industry, and it utilizes a flexible approach, which will still permit one-fifth of all construction workers to be nonresidents.

Other post-*Camden* decisions that have upheld local preference statutes include:

* *Gary Concrete Products, Inc. v. Riley,* 285 S.C. 498, 331 S.E.2d 335 (1985), upholding a law requiring procurements to be made from South Carolina residents, so long as the South Carolina bidder is not more than 2% higher than that of the nonresident bidder for procurements under $2,500,000 and not more than 1% higher for procurements over $2,500,000.

* *APAC-Mississippi, Inc. v. Deep South Construction Co., Inc.,* 288 Ark. 277, 704 S.W.2d 620 (1986), upholding the requirement that contracts be awarded to bidders who paid local taxes, unless they are more than 3% higher than the lowest nontaxpaying bidder.

* *Bristol Steel & Iron Works, Inc. v. State Dept. of Transportation & Development,* 507 So.2d 1233, 1236 (La. 1987), upholding a law requiring that public works contracts must be awarded to Louisiana resident contractors unless it is more than 5% higher than the lowest responsible nonresident bid, explaining that the statute "serves a legitimate state interest, i.e., encouraging Louisiana's industries, and is rationally related to advancing that purpose."

* *Big Country Foods, Inc. v. Bd. of Educ. of Anchorage Sch. Dist.,* 952 F.2d 1173 (9th Cir. 1992), upholding a requirement that Alaska school districts receiving state funds purchase dairy products harvested in Alaska unless the price is more than 7% higher than products of like quality harvested outside the state.

Other States with Resident Preference Statutes

Other states statutes that mandate resident-hiring preferences include:

* Idaho Code, Title 44, Chapter 10 § 44-1002, requiring that 95% of the employees in public works contracts be Idaho residents.

* Montana Code Annotated, § 18-2-409, requiring that 50% of the employees on public works contracts be "bona fide Montana residents."

* Oklahoma Statutes, Title 61, § 9, stating that all public works contracts "shall require employment of Oklahoma labor and the use of Oklahoma materials if available....and can be procured at a cost no higher than the same quality of labor or material available from outside this state."

* West Virginia Code Annotated, § 5A-3-37, giving a preference to bidders utilizing at least 75% West Virginia residents who have lived in West Virginia continuously for at least two years, as long as their bid does not exceed the lowest qualified bid by 2 1/2%.

* Wyoming Rules & Regulations, Chapter 14, § 6, giving a preference to Wyoming contractors, if their bid is not more than 5% higher than that of the lowest responsible nonresident bidder, and requiring that resident laborers be used whenever possible.

Applying the Governing Test to HB 2736

The decisions since the 1984 *Camden* case confirm that each resident-preference statute must be examined in light of the specific situation in the affected community and the record made to support the statute. Hawai'i's geography complicates its employment situation, because many construction workers cannot easily move or relocate their families to distant sites where jobs might be available, and thus are limited to job opportunities in our islands. Because of this constraint, because the construction industry has been particularly hard hit in the current downturn, and because some contractors receiving public works contracts have brought in workers from elsewhere rather than hiring available local workers, a strong case can be made that HB No. 2736 is substantially related to the important government goal of reducing unemployment. The 80% figure in the Bill provides a contractor with sufficient flexibility to bring in workers from elsewhere who may have unique skills unavailable here, but at the same time ensures that taxpayer moneys spent for public works projects will help alleviate unemployment in Hawai'i's construction industry. The cases cited in footnote 2 can be distinguished, because they either involved situations where no legislative record was made, or they involved an absolute (or near-absolute) preference rather than the 80% utilized in HB No. 2736, or they involved local state constitutional provisions inapplicable here.

If the proper legislative record is made, therefore, HB No 2736 should be found to be constitutional.

HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

AFSCME
LOCAL 152, AFL-CIO

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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
February 18, 2010

H.B. 2736 – RELATING TO
PUBLIC PROCUREMENT

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO supports the purpose and intent of H.B. 2736 which requires at least 80% of workers on public works and construction contracts to be Hawaii residents. This measure seeks to positively impact our state's record-high unemployment by creating jobs for Hawaii residents and in turn stimulate our local economy.

HGEA knows intimately the dampening effect layoffs and cutbacks have on the economy. Our members have been impacted by layoffs, wage reductions and increased living expenses, especially higher medical premiums – spending less in the community and saving if they can. We are sharing in the pain of this recession, as are their families and our local community. Our people need work.

Furthermore, some may forget that HGEA members are taxpayers, too. Our taxes should help support our local economy. If there are jobs that are outside the scope of duties of existing government employees, such as for these large public construction projects, the tax dollars that are used to pay for the work should be thoughtfully directed to help heal our economy. In these economic times, that direction is simple, jobs for Hawaii's people, keeping our tax dollars at home, is the right way to support our economy.

Thank you for the opportunity to testify in support of H.B. 2736.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director

888 MILILANI STREET, SUITE 601 HONOLULU, HAWAII 96813-2991

IRON WORKERS STABILIZATION FUND

Fax: 586-6001

February 16, 2010

Hon. Marcus Oshiro, Chair
House Committee on Finance
State Capitol – Room 306
Honolulu, HI 96813

Iron Workers Stabilization Fund – T. George Paris, Managing Director

Hearing Date – February 18, 2010 – 5:00 p.m.

Support of HB 2736, Relating to Public Procurement

The purpose of this bill is to require at least 80% of workers on public works and construction contracts to be Hawaii residents.

As the events of the last few years have demonstrated, many substantial public works projects have been awarded to companies from outside Hawaii. As if that were not bad enough, these foreign companies have brought in all or most of the workers for these projects from the outside. It only stands to reason that the bulk of the earnings of these workers is sent back to their families on the mainland or even to foreign countries, including Mexico. This being the case, our taxpayer dollars funding these projects are being spent on the mainland or in foreign countries, and not in the State of Hawaii.

Especially at this moment in our history, we need all of the dollars emanating from these projects to be paid to Hawaii residents who will then spend these earnings to stimulate our fragile economy. Spending from these projects should have a rippling effect to hopefully reverberate throughout our economy to help our state and people to get back on our feet. Additionally, this spending would assist in broadening our tax base.

Based on the above, we firmly request that this measure be quickly passed and sent to the next committee.

94-497 UKEE STREET ■ WAIPAHU, HAWAII 96797 ■ (808) 671-4344

The Twenty-Fifth Legislature
Regular Session of 2010

HOUSE OF REPRESENTATIVES
Committee on Finance
Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair

State Capitol, Conference Room 308
Thursday, February 18, 2010; 5:00 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON H.B. 2736
RELATING TO PUBLIC PROCUREMENT

The ILWU Local 142 supports H.B. 2736, which requires at least 80% of workers on public works and construction contracts to be Hawaii residents.

At first glance, this bill may appear unconstitutional because it provides for preference in hiring to Hawaii residents. However, we are informed by the testimony of Professor Jon Van Dyke of the William S. Richardson School of Law at the University of Hawaii that federal case law exists to allow for such preference if it is "substantially related to the important government goal of reducing unemployment."

Clearly, this measure will help to ease the burgeoning unemployment among construction workers. Labor unions report that more than half of their members are "on the bench," meaning that they are waiting to be referred for work. Many may still be receiving unemployment benefits, but some may have exhausted those benefits and are desperate for work.

At the same time, the State is issuing public works contracts to companies that bring workers into the state to complete the contracted work--as if no qualified workers are available in Hawaii! This is a travesty of justice.

If Hawaii taxpayers are paying for public works projects, Hawaii workers should be doing the work. It makes no sense to pay a company that hires offshore workers, pays for their travel and living expenses, and lets them contribute taxes elsewhere. As much as possible, our taxes should be used to support working men and women who live in Hawaii and will, in turn, support our own economy.

The ILWU urges passage of H.B. 2736. Thank you for the opportunity to testify on this matter.

HAWAII STATE AFL-CIO

320 Ward Avenue, Suite 209 • Honolulu, Hawaii 96814

Randy Perreira
President

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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Finance

Testimony by
Hawaii State AFL-CIO
February 18, 2010

H.B. 2736 – RELATING TO PUBLIC PROCUREMENT

The Hawaii State AFL-CIO strongly supports H.B. 2736 which requires at least eighty percent of workers on public works and construction contracts to be Hawaii residents.

As of January 2010, Hawaii's unemployment rate has reached a staggering 6.9 percent. As of December 2010, Hawaii's hotel occupancy rate plunged below 61 percent; the lowest since the September 11, 2001 terrorist attacks and to further rub salt on the wound, Hawaii's foreclosures skyrocketed 183 percent in the year 2009. In December 2009 alone, there were a whopping 1,534 foreclosures. In short, the local economic news remains gloomy.

With the unemployment rates rising, and the 1.2 billion dollar deficit Hawaii faces, it is imperative to pass H.B. 2736. No longer should Hawaii residents sit on the bench while out-of-state workers get the jobs our workers so desperately need. It is time to put our unemployed back to work and stimulate our stagnant economy. We must do all we can to keep the unemployment rate from rising and families being forced out of their homes because their parents had to sit on the bench and watch out-of- state workers do their jobs.

Than you for the opportunity to testify.

Respectfully submitted,

Randy Perreira
President

International Brotherhood of Electrical Workers

LOCAL UNION NO. 1186 • Affiliated with AFL-CIO

1935 HAU STREET, ROOM 401 • HONOLULU, HI 96819-5003
TELEPHONE (808) 847-5341 • FAX (808) 847-2224

TESTIMONY FOR HB2736 , RELATING TO PUBLIC PROCUREMENT

TO: **HOUSE COMMITTEE ON FINANCE**

For Hearing on Thursday, February 18, 2010, at 5:00 p.m., in Conference Room 308

RE: **STRONG SUPPORT FOR HB2736**

Honorable Chair Oshiro, Vice Chair Lee, and House Finance Committee members,

The **International Brotherhood of Electrical Workers Local Union 1186** represents over 3,500 members working in electrical construction, telecommunications, and Oceanic Cable. Our members include civil service employees at Pearl Harbor, Kaneohe, Hickam, and at every military installation in Hawaii. IBEW Local 1186 also represents over 120 signatory electrical contractors that perform most of the electrical work in the state of Hawaii.

HB2736 enables the legislature and the state of Hawaii to constitutionally execute a policy issue to ensure local jobs are created for local residents and to address a pressing local policy concern. Tax dollars and public works projects created to stimulate the local economy and reduce the plague of unemployment are more effective when the majority of those jobs go to local residents and to the support of our local community, instead of being circumvented by outside interests.

The multiplier effect and the circulation of our local dollars and resources should be encouraged by our policy makers whenever possible. HB2736 will provide the proper framework for stimulating the local economy and creating "local jobs for local people" in a responsible manner. <u>Thank you for providing me with the opportunity to testify in strong support for HB2736.</u>

Mahalo and aloha,

Damien Kim
Business Manager – Financial Secretary
International Brotherhood of
Electrical Workers, Local Union 1186

International
Brotherhood *of*
Electrical
Workers

Edwin D. Hill
International President

Lindell K. Lee
International Secretary - Treasur

Michael Mowrey
International Vice President

Ninth District

The House of Representatives
Twenty-Fifth Legislature
Regular Session of 2010

Committee on Finance

Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair

Hearing: Thursday February 18, 2010
Time: 5:00 p.m.
Place: Conference Room 308

Testimony of the International Brotherhood of Electrical Workers (IBEW)

Re: H.B 2736 Relating To Public Procurement

H.B 2736 would help ensure that Hawaii's jobs will go predominantly to Hawaii's people.

The IBEW strongly supports this measure.

With Hawaii's rising unemployment in this down economy, our people are hurting and it is getting harder and harder out there to find a decent job. It is a shame that work that could be done by our people is given away to mainlanders looking to make a quick buck with the majority of that money leaving the state... Why?

The Hawaii unionized construction industry takes great pride in ensuring that our workers are highly trained, extremely productive and receive a superior standard of safety training. We can do that work if you let us and we will keep the dollars flowing through Hawaii's economy helping all of Hawaii to recover.

2500 Venture Oaks Way • Suite 250 • Sacramento, California 95833-4221 • (916) 567-0381 • FAX (916) 567-0385 • www.ibewninthdistrict.org

We ask for your help in putting Hawaii's unemployed back to work with quick passage of H.B 2736.

Thank you for the opportunity to provide testimony.

Harold J. Dias, Jr
IBEW, International Representative

IRON WORKERS STABILIZATION FUND

Fax: 586-6001

February 16, 2010

Hon. Marcus Oshiro, Chair
House Committee on Finance
State Capitol – Room 306
Honolulu, HI 96813

Iron Workers Stabilization Fund – T. George Paris, Managing Director

Hearing Date – February 18, 2010 – 5:00 p.m.

Support of HB 2736, Relating to Public Procurement

The purpose of this bill is to require at least 80% of workers on public works and construction contracts to be Hawaii residents.

As the events of the last few years have demonstrated, many substantial public works projects have been awarded to companies from outside Hawaii. As if that were not bad enough, these foreign companies have brought in all or most of the workers for these projects from the outside. It only stands to reason that the bulk of the earnings of these workers is sent back to their families on the mainland or even to foreign countries, including Mexico. This being the case, our taxpayer dollars funding these projects are being spent on the mainland or in foreign countries, and not in the State of Hawaii.

Especially at this moment in our history, we need all of the dollars emanating from these projects to be paid to Hawaii residents who will then spend these earnings to stimulate our fragile economy. Spending from these projects should have a rippling effect to hopefully reverberate throughout our economy to help our state and people to get back on our feet. Additionally, this spending would assist in broadening our tax base.

Based on the above, we firmly request that this measure be quickly passed and sent to the next committee.

94-497 UKEE STREET ■ WAIPAHU, HAWAII 96797 ■ (808) 671-4344

HAWAII BUILDING AND CONSTRUCTION TRADES COUNCIL, AFL-CIO
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Vice President
Iron Workers Local 625

DAMIEN T. K. KIM
Financial Secretary
International Brotherhood of Electrical Workers Local 1186

ARTHUR TOLENTINO
Treasurer
Sheet Metal Workers I.A. Local 293

REGINALD CASTANARES
Trustee
Plumbers & Fitters Local 675

THADDEUS TOMEI
Elevator Constructors Local 126

MALCOLM K. AHLO
Carpet, Linoleum, & Soft Tile Local 1296

JOSEPH BAZEMORE
Drywall, Tapers, & Finishers Local 1944

ROY JOHNSON
Glaziers, Architectural Metal & Glassworkers Local Union 1889

RONAN KOZUMA
Hawaii Teamsters & Allied Workers Local 996

GARY AYCOCK
Boilermakers, Ironship Builders Local 627

LYNN KINNEY
District Council 50 Painters & Allied Trades Local 1791

KALANI MAHOE
Operating Engineers Local 3

PETER GANABAN
Laborers' International Union of North America Local 368

DOUGLAS FULP
International Association of Heat & Frost Insulators & Allied Workers Local 132

February 17, 2010

Honorable Representative Marcus R. Oshiro, Chair
Honorable Representative Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance
Hawaii State Capital
415 South Beretania Street
Honolulu, HI 96813

RE: **IN SUPPORT OF HB 2736**
RELATING TO PUBLIC PROCUREMENT.
Hearing: Thursday, Feb. 18, 2010, 5:00 p.m., Conf. Room 308

Dear Chair Oshiro, Vice Chair Lee and the House Committee on Finance:

For the record my name is Buzz Hong the Executive Director for the Hawaii Building & Construction Trades Council, AFL-CIO. Our Council is comprised of 16-construction unions and a membership of 26,000 statewide.

Our Council SUPPORTS the passage of HB 2736 that requires at least eighty per cent of workers on public works and construction contracts to be Hawaii residents..

Thank you for the opportunity to submit this testimony in support of HB 2736.

Sincerely,

W. Hong/dg

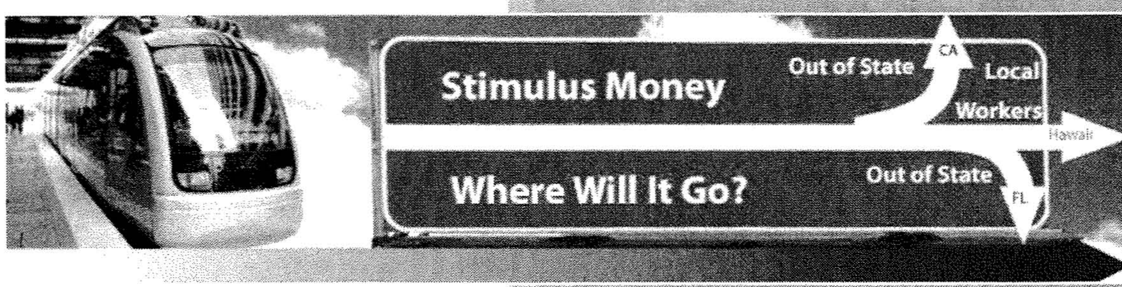
William "Buzz" Hong
Executive Director

WBH/dg

Skilled Craftsmanship Makes the Difference.

2010

The Cost of Out-of-State Construction Workers



Testimony of Peter Philips, Ph.D. and Kevin Duncan, Ph.D. on Hawaii House Finance Committee HB 2736
University of Utah and Colorado State University, Pueblo
2/17/2010

- *Hawaii gets a four-for-one payoff with public construction:*
- *First, local construction workers get jobs.*
- *Second, their local spending stimulates the local economy and local businesses--generating more tax revenues.*
- *Third, that stimulus creates an even greater number of jobs for locals in other sectors of the economy.*
- *And fourth, the public infrastructure built with taxpayer money lays the foundation for a more efficient and competitive economy.*
- *But, to the extent that the construction workers themselves are not local, the first three legs of this table are cut short.*
- *How short depends on how many non-local construction workers are on public jobs and how little they manage to spend locally in order to pay for their home life and family life on the mainland.*
- *During economic downturns fewer tourists come to Hawaii but more traveling construction workers come looking for work. Less tourist dollars are injected into the state's economy while more wages leak out as travelers save and send their paychecks back to the mainland.*
- *Preferential local hire on public works preserves local construction jobs, maximizes spending with local businesses, stimulates more local jobs outside construction, increases state tax revenues, prevents other states from harvesting Hawaii's federal stimulus dollars, and acts as an automatic stabilizer during economic crises.*

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Executive Summary

Since the Fall of 2007

- Hawaii state employment has fallen by 6.7%
- Hawaii construction employment has fallen by 20%
- Governor Lingle estimates that in the last year Hawaii's Capital Improvement Projects have created 21,715 jobs of which 5050 were direct jobs created in construction and the remainder were created outside construction from the expenditures of construction companies and their workers
- Based on these estimates, without almost $1.7 billion spent on CIP projects, Hawaii total employment would have fallen by 10% since January 2008 and construction employment would have fallen by 33% since October 2007.
- But the Governor's estimates assume that all the workers on CIP projects are Hawaii residents. To the extent that out-of-state residents work on these projects, much of the benefit of construction stimulus money leaks from Hawaii and fewer local jobs are created. For example, if two-thirds of the 5050 construction jobs are filled by nonresidents, the total job creation is about 7000, not 21,715.
- Without preferential hiring of Hawaii residents, federal stimulus money aimed at Hawaii is partially missing its mark, and state tax dollars geared to creating jobs in Hawaii are, to a significant extent, stimulating jobs on the mainland rather than Hawaii.
  - Hawaii's construction wages are from 5% to 60% higher than mainland construction wages. These higher wages draw more mainland workers to Hawaii compared to the other way around. The lower mainland wages are not an attraction to Hawaii construction workers who must send money home to pay the higher cost of living required to support themselves and their families.

From $1.7 billion in Hawaii public construction projects now undertaken, State Comptroller Russ Saito calculates that 5050 construction jobs will create 16,665 non-construction jobs for a total of 21,715 jobs.

This assumes that the 5050 construction workers hired are local resident construction workers with local families spending their income locally at local businesses. If that is not the case, then the "multiplier" from construction to other jobs will be smaller and perhaps much smaller.

- The size of mainland contractors and the mainland construction labor force dwarfs Hawaii's construction industry, creating a two-way street with a wide lane leading from the mainland to Hawaii and a constricted lane leading in the opposite direction.
- Currently, unemployment is much higher on the mainland and that unemployment is concentrated in states closer to Hawaii and in states with the lowest wages compared to Hawaii. This creates incentives based on nearness and wage differentials for more mainland workers to come to Hawaii.
- Currently, unemployment in construction is roughly 30 percent on the mainland, creating considerable interest in large, visible public works jobs supported by state and federal stimulus money in Hawaii.

Say two-thirds of the 5050 construction workers on Hawaii public projects are from the mainland and only 1667 of the 5050 construction workers are local.

Non-local workers will save or send most of their money home spending the barest minimum in Hawaii.

In effect, for stimulating the local economy, Hawaii's tax dollars have hired only the 1667 workers who will spend most of their income locally.

Using Mr. Saito's jobs multiplier of 4.3, these local workers generate 7168 total jobs not 21,715.

So, in rough and ready terms, if you cut the percent of local workers on public construction by two-thirds, you will cut the total job creation by almost two-thirds as well.

- This study analyzes the leakages out of the Hawaii economy due to the employment of out-of-state workers and shows how the stimulative effect of federal and state money on public works is blunted due to the absence of a preferential hiring policy for local workers.
- Our income leakage analysis is based on the following projects: 1) the Aloha Stadium Refurbishment Project, 2) the Federal Stimulus funds allocated to Hawaii, 3) the 2008 state expenditures on capital improvements, 4) one of the alternatives from the proposed Honolulu High-Capacity Transit Corridor Project, and 5) the revised 2008-2009 State Capital Improvement Project.
- We compare the leakage impact of selected construction projects when either 33 percent or alternatively 80 percent of the work is done by Hawaiian residents. Specifically, we estimate the impact of the leakage of employee compensation net of the amount out-of-state workers spend in Hawaii during the construction period.
- We use data from the *2007 Economic Census of Construction*, the *Quarterly Census of Employment and Wages*, and construction cost data for each of our projects to calculate employee compensation. These data are adjusted for per diem expenses for out-of-state workers.

- We use IMPLAN, an input-output model, to measure how a change in employee compensation in the Hawaiian construction industry affects spending, employment, and tax revenue in other sectors of the Hawaiian economy.
- Results for selected projects:
    - **Aloha Stadium Project: Replacement of Roof Deck and Transformers**. The cost of this project is $10.5 million and it employs about 50 construction workers. It is known that all of these workers are nonresident. As a consequence, the economic activity associated with this project decreases by $1 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $71,000 and a loss of 8 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $800,000 greater, and 6 jobs would be saved as would $54,000 in state and local taxes (compared to the outcome with 67 percent nonresident workers).
    - **Aloha Stadium Refurbish Project**. The cost of this project is $185 million and it employs about 740 construction workers. If 67 percent of these workers are from out of state, the economic activity associated with this project would decrease by $16.3 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $1,166,000 and a loss of 130 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $11 million greater, and 90 jobs would be saved as would $800,000 in state and local taxes (compared to the outcome with 67 percent nonresident workers).

Out-of-state workers blunt the effect of stimulus money spent on public construction.

Without local preference in hiring of public construction workers, Hawaii construction workers lose jobs, local businesses lose customers, fewer local jobs are created off public construction sites, local tax revenues are lost, and Hawaii stimulus money goes to stimulate the economies of mainland state economies instead of the Hawaiian economy.

Among other things, this is unfair. Larger mainland states will send more workers to Hawaii, harvesting more of Hawaii's stimulus money for themselves even though these same larger states received more federal stimulus dollars in the first place.

- **Federal Stimulus Funds.** The funding for Hawaii is $199 million and will employ about 500 construction workers. If 67 percent of these workers are from out of state, the economic activity associated with this funding would decrease by $12.5 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $925,000 and a loss of 99 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $8.7 million greater, and 70 jobs would be saved as would $650,000 in state and local taxes (compared to the outcome with 67 percent nonresident workers).
- **2008 State Capital Expenditures.** To focus on the leakage of state money when nonresident construction workers are used on local public works projects, we delete the federal contribution and examine the impact of the $1.3 billion in state funds. This capital expenditure would employ about 3,700 construction workers. If 67 percent of these workers are from out of state, the economic activity associated with this funding would decrease by $82.8 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $5.9 million and a loss of 660 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $58 million greater, and 460 jobs would be saved as would $4.2 million in state and local taxes (compared to the outcome with 67 percent nonresident workers).
- **High-Capacity Transit Corridor Project.** In 2008, the City and County of Honolulu and the U.S. Department of Transportation evaluated fixed-guideway alternatives that would provide high-capacity transit service on Oahu. We use the Airport and Salt Lake Alternative to illustrate the impact of this proposed project. We estimate that this project would directly employ 12,000 construction workers. If 67 percent of these workers are from

Both Hawaii and the federal government have an interest in insuring that federal money sent to Hawaii is spent in Hawaii.

Hawaii taxpayers benefit from their tax dollars spent on public works when those dollars feed back into their economy by the hiring of local construction workers.

The Hawaiian government benefits from spending their tax dollars hiring local construction workers because that will maximize the stimulative effect which in turn will maximize future state revenues.

Using local workers will not generate higher future tax revenues equal to project costs, but out-of-state workers will cost the state more because they will generate the least amount of future tax revenues.

out of state, the economic activity associated with this funding would decrease by $299 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $22 million and a loss of 2,380 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $210 million greater, and 1,670 jobs would be saved as would $15 million in state and local taxes (compared to the outcome with 67 percent nonresident workers).

- **2008-2009 Capital Improvement Project.** During 2008 and 2009 the Hawaiian State Legislature budgeted and approved 2,308 public works projects totaling $4.5 billion. We estimate that 13,500 workers will be employed on these projects. If 67 percent of these workers are from out of state, the economic activity associated with this funding would decrease by $297 million. This reduction in economic activity is associated with a reduction in state and local tax revenue of $21.3 million and a loss of 2,370 jobs. If the 80 percent resident requirement applied to this project, economic activity would be about $200 million greater, and 1,660 jobs would be saved as would $15 million in state and local taxes (compared to the outcome with 67 percent nonresident workers).
- **Summary of leakage impact analysis**:
  - The economic activity associated with state and federally funded public works projects is about 70 percent larger if contractors use 20 percent nonresident workers instead of 67 percent out-of-state employees. This is the case if the impact is measured in terms of dollars, jobs, or state and local tax revenue.
  - Most of the job loss associated with the use of out-of-state construction workers is concentrated in the food, real estate, and health service sectors. Employment in the retail goods sector is also affected.

> *In economic downturns, fewer tourists come to Hawaii and more traveling construction workers look for work in Hawaii. This means fewer dollars injected into Hawaii from the mainland and more federal and state construction dollars leaking out of Hawaii. So Hawaii is hit with a double-whammy when the economy turns down while mainland states save their tourist dollars and harvest Hawaii's stimulus dollars. Local preference in hiring acts as an automatic stabilizer for the Hawaii economy during downturns, preserving stimulus money, taxes and jobs.*

- **Conclusion**: With the recent decline in the Hawaiian tourism industry, the flow of dollars into the economy has been reduced. Therefore, the leakage associated with the use of out-of-state construction workers becomes an increasing drain on the Hawaiian economy. The 80 percent resident requirement for public construction projects is particularly timely in providing balance to the net flow of dollars into the state.

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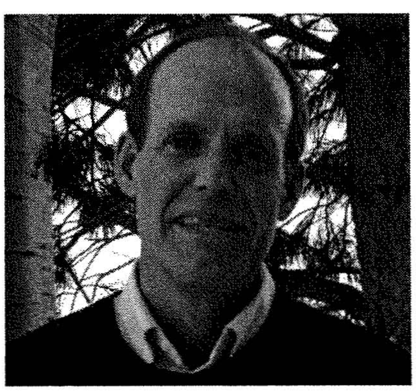

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Introduction: the Benefits of Construction Stimulus Money Will Leak Out of the Hawaiian Economy if Preferential Access Is Not Protected

In October 2007, seasonally adjusted construction employment in Hawaii hit an historical peak at almost 40,000 workers.[1] The subprime loan crisis had been brewing on the mainland for about a year. RealtyTrac reported that in Hawaii in August of 2007 foreclosure filings had more than tripled compared to the same month in 2006. However, local bankers were cautiously optimistic: "Stable home prices and a strong job market has helped Hawaii homeowners from defaulting on their loans. Local lenders also say local borrowers generally were more conservative, and didn't take out as many of the riskier loans."[2] But unbeknown to most observers, Hawaii and the Hawaiian construction industry were about to be sucked into the biggest financial vortex since the Great Depression.

Construction employment peaked at 40,000 workers in October 2007.

Over the next 26 months, Hawaii construction would lose, in seasonally adjusted terms, about 8000 jobs or about 20 percent of its construction labor force. (See Figure 1)

Since then Hawaii construction employment has fallen by 20 percent.

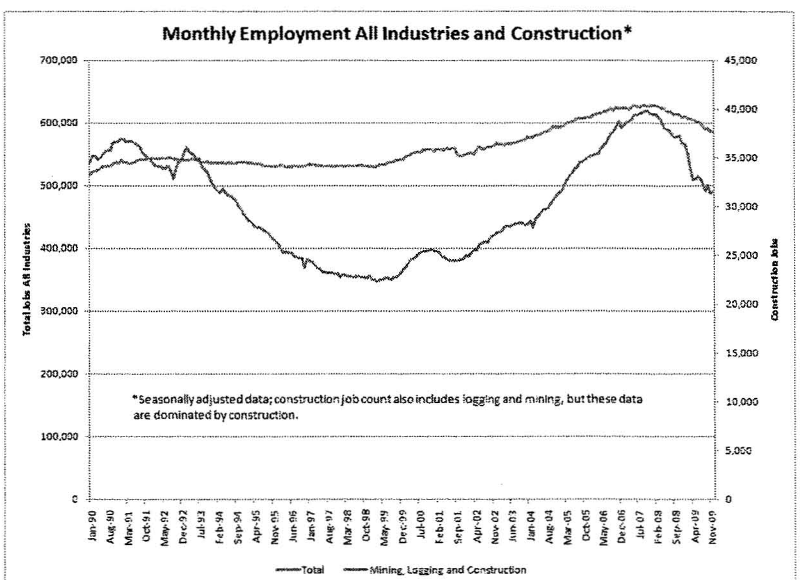

Figure 1: Hawaii Total Monthly Nonfarm Employment and Construction Employment, 1990 to December 2009. Source: Hawaii Department of Industrial and Labor Relations, Hawaii Workforce Informer[3]

Construction is a leading economic indicator. Typically, construction leads a local economy into the downturn and later, after the economy hits bottom, out of the downturn. Following this pattern, Hawaii's total employment peaked after construction in January 2008 at a seasonally adjusted 627,900 jobs only to fall to 586,100 jobs by December 2009--a drop of 6.7 percent. This may not yet be the bottom for either Hawaii construction or the overall economy. But slowing the fall and perhaps eventually igniting the rebound, both the state and federal governments have engaged in stimulus spending on public construction.

Overall Hawaii employment in all industries has fallen by 6.7 percent.

In December 2009, Governor Linda Lingle announced that Hawaii's capital improvement projects, or CIP program, in 2009 had open bids for, awarded contracts for, or started construction on 681 capital improvement projects totaling almost $1.5 billion. The *Hawaii Reporter* noted:

> The original 18-month plan launched one year ago [in December 2008] included approximately 1,500 capital improvement projects [eventually] totaling $1.8 billion which were previously budgeted and approved by the Legislature. While the State has focused on these 1,500 projects, work is also moving forward on another 800 capital improvement projects. In all, the State's expanded plans now include 2,308 construction projects, totaling $4,501,794,013.[4]

Hawaii has plans for 2308 new public construction projects worth $4.5 billion.

In January of 2010, State Comptroller Russ Saito updated a legislative committee on the state's success in advancing what was now almost $1.7 billion in capital improvement projects:

> The state estimates the $1.69 billion in capital improvement projects has generated approximately 21,715 direct and indirect jobs statewide in the construction industry and other related sectors. This is based on a Department of Business, Economic Development and Tourism formula which estimates that for every million dollars invested, 12.9 direct and indirect jobs are created. The number of direct construction jobs created by the capital improvement projects is approximately 5,050. This is based on a formula used by the construction industry which estimates that for every million dollars, three direct construction jobs are created.[5]

In-place construction projects worth $1.7 billion have created 5050 new construction jobs and stimulated an additional 16,665 non-construction jobs for a total of 21,715 new jobs from CIP projects.

To put this in perspective, these created or preserved jobs accounted for 3.7 percent of all jobs in Hawaii in December 2009 and 16 percent of construction jobs.[6]

Put differently, had these jobs not been created or preserved by the stimulus of public construction, construction employment would have fallen to 26,550 jobs or by 33 percent instead of the actual fall of 20 percent. Overall employment would have fallen to 564,385 jobs or by 10 percent instead of the actual fall of 6.7 percent. We will see in a moment, however, that these numbers depend on assuming that the workers who got these 5050 construction jobs were Hawaii residents. If some or most of these 5050 construction workers were travelers coming from out of state, not only are these construction jobs lost to Hawaii workers, but because travelers tend to spend little locally, many of the non-construction jobs created through the local spending of construction workers would fail to materialize.

In explaining the importance of the CIP projects and the state's efforts, Governor Lingle explained:

> This focused capital improvement project plan, which is a collaborative partnership between the State, the construction industry, trade unions and counties, is helping to stimulate our local economy and create jobs for our residents while positioning Hawai'i for the future.[7]

Thus, Governor Lingle correctly pointed out that Hawaii gets a four for one payoff with public construction. First, local construction workers get jobs. Second, their local spending stimulates the local economy generating more tax revenues. Third, that stimulus creates an even greater number of jobs for locals in other sectors of the economy. And fourth, the public infrastructure built with taxpayer money lays the foundation for a more efficient and competitive economy. But, to the extent that the construction workers themselves are not local, the first three legs of this table are cut short. How short depends on how many non-local construction workers are on public jobs and how little they manage to spend locally in order to pay for their home life and family life on the mainland.

Let's do a simple example using State Comptroller Russ Saito's numbers to show how this works: Mr. Saito calculates that 5050 construction jobs will create 16,665 non-construction jobs for a total of 21,715 "direct" (i.e. construction) and "indirect" (i.e. non-construction) jobs. This is what economists call a "multiplier" effect: 5050 jobs created with government dollars creates a total of 21,715 jobs. Put another way, you can multiply the 5050 jobs you created with taxpayer money by a "multiplier" of 4.3 to get your eventual total of 21,715 jobs created or preserved with your government stimulus money. And of course this has an additional benefit of

Without this $1.7 billion in Hawaii public works construction, construction jobs in Hawaii would have fallen by 33 percent instead of 20 percent and overall jobs in Hawaii would have fallen by 10 percent instead of 6.7 percent.

Hawaii gets a four-for-one from public works: local construction workers get jobs, even more jobs are created outside of construction, tax revenues go up helping pay for the initial public construction, and Hawaii gets a modernized infrastructure which helps the competitiveness of all industries.

But this depends on local construction workers getting the jobs in the first place.

more tax revenues which essentially circle back to help pay for the 5050 construction jobs in the first place.

But all this assumes that the 5050 construction workers you hire in the first place are local construction workers with local families spending their income locally at local businesses. If that is not the case, then the "multiplier" will be smaller and perhaps much smaller.

Say for example that two-thirds of the 5050 construction workers put on a Hawaii public project are from the mainland. Thus, only 1683 of the original 5050 construction workers would be local. Assume for simplicity that all the non-local workers send almost all of their money home spending the barest minimum in Hawaii while working 6 10-hour days a week to get in and out of the Islands as quickly as possible. Then, in effect, your stimulus dollars have hired not 5050 construction workers but only the 1683 local construction workers. Only they will have any appreciable multiplier effect. Using the multiplier of 4.3, these local workers generate 7237 total jobs not 21,715. In reality, of course, there would be more than 7237 total jobs because, while in Hawaii, mainland workers cannot live on air. But construction travelers travel in order to pay for their living expenses back home. So travelers keep to the barest minimum their local expenditures while their family needs are still met back home--the mortgage, the kids' dental needs, groceries for the family and so on. So, in rough and ready terms, if you cut the percent of local workers on public construction by two-thirds, you will cut the total job creation by almost two-thirds as well. And local businesses will see about two-thirds less business and government will collect about two-thirds less in taxes.

Governor Lingle's numbers for job creation from public works expenditures and similar numbers generated by private organizations assume that the workers on public construction are local workers spending their incomes locally. This is often not the case, and as we shall see below, in the coming months and years, as long as the economic crisis continues, Hawaii construction workers will be exposed to considerable competition in Hawaii from out-of-state workers. Because of this, estimates of the local benefits of public construction in stimulating the local economy may have been too optimistic.

Another way of looking at this is thinking about what happens when a local employer in any industry leaves the state. When a local employer leaves Hawaii and takes the jobs he provided along with him, it is easy to see that this is a loss for the Hawaiian economy. Not only do jobs directly leave the state with that employer, but also the income of workers on those jobs will no

If, for example, two-thirds of the 5050 construction workers are not local, the overall stimulus effects of the $1.7 billion falls by almost two-thirds.

Fewer locals get jobs on Hawaii public works.

Fewer jobs in Hawaii are created outside of construction.

Less tax revenue is generated.

Because Governor Lingle's calculations for the number of jobs created by $1.7 billion in CIP spending assume that all the construction workers on Hawaii projects are local residents when there is no preferential hiring of local construction workers, the Governor's numbers may be too optimistic.

longer be spent in Hawaii providing additional demand and additional work for others. Of course, when this hypothetical employer and his workers leave, if for some strange reason, the workers he takes with him, or even more strangely the workers he finds in another state, send all or most of their money back to Hawaii, then the employer leaving Hawaii would not hurt the Hawaiian economy--or at least not so much. But why would workers who are being transferred from Hawaii to the mainland send all of their income back to Hawaii?

Well usually they don't. Usually, when a worker is transferred, he or she brings his or her spouse and children with the worker, and the family digs roots in another state--buys a house there, sends the kids to school there, shops at local stores there and gets on with life. The big exception is the temporary worker who does not expect to be away from Hawaii permanently.

Traveling construction workers in numerical terms are perhaps the main example of this type of temporary worker.[8] Travelers (as they are called in construction) intend to return back home. They are in Hawaii for one reason--to make as much money as possible and to spend the least money possible--in order to send remittances back home and in order to save for future living back home.

When contractors hire out-of-state construction workers to do work in Hawaii, the effects are similar to that of employers leaving the state. These traveling construction workers come to Hawaii for a short time period, limiting their expenditures in Hawaii in order to finance their lives and families back home. Thus, not only are some jobs on construction lost to Hawaiian construction workers when out-of-state workers get those jobs, but perhaps even more importantly, the stimulus effects of those jobs and that income will disproportionately go elsewhere and not into the Hawaiian economy. So not only do Hawaiian construction workers lose, but the grocer, the car dealer, the real estate agent, the dentist, the waitress and all those who might get work from the dollars the local construction worker spends but the traveler does not--these Hawaiians lose too.

Government has an interest in assuring that stimulus money reinvigorates the local economy into which it is directed. For instance, when the American Recovery and Reinvestment Act funds for 2009 were disbursed, they were sent to states generally in proportion to each state's size. Hawaii received $199,936,066 federal stimulus dollars for highway and bridge construction, an amount similar to Maine ($174,354,906) and Delaware ($158,711.190) and South Dakota ($213,555,526). In contrast, larger states such as California ($3,918,302,348), Texas

Construction travelers minimize their local expenditures in order to maximize the benefits to themselves and their families of traveling to a high wage state for a short period of work.

Hiring a construction traveler is a lot like moving a business out of Hawaii.

Hiring a construction traveler is like transferring the federal stimulus money Hawaii receives to other, often larger states which have already received more federal stimulus dollars than Hawaii.

($2,803,662,132) and Florida ($1,795,218,090) received proportionately more federal dollars for public road construction.[9] When workers from California, Texas or Florida come to Hawaii for work, effectively that shifts some of the federal stimulus dollars allocated to Hawaii off to California, Texas and/or Florida. It stimulates their mainland local communities, employs their dentists and real estate agents and car salesmen.

Of course, it is also true that when Hawaii workers get public works jobs in California, Texas or Florida, that shifts some of those stimulus dollars to Hawaii. But while this is a two way street, the lane carrying money out of Hawaii is much wider than the lane carrying money into Hawaii. This is because Hawaii has higher wages, a smaller construction workforce and lower unemployment.

The flow of workers to and from Hawaii is not even. When Hawaii workers go to California and especially Texas or Florida, they earn less than workers coming from those states earn in Hawaii. So the gravitational pull of wages drawing workers to Hawaii is stronger than the gravitational pull of wages pulling workers from Hawaii. Also, because those states are so much larger than Hawaii, the numbers of incoming out-of-state workers can easily swamp the number of out-going Hawaii construction workers. We shall also see that currently unemployment rates are much higher elsewhere compared to Hawaii further motivating more construction workers to look to Hawaii than Hawaiian construction workers looking to the mainland.

Thus, without protection for local construction workers, Hawaii faces the potential of unfairly losing some of the beneficial effects of federal construction stimulus dollars to states that have received substantially more federal stimulus dollars in the first place. Similarly, Hawaii state construction dollars will have less of a stimulus impact on the state's economy to the extent that contractors are permitted to employ out-of-state workers. Without preferential hiring for local workers, Hawaii runs the risk of using its state taxes to stimulate the economies of California, Texas and Florida without a fair recompense coming in the other direction.

Consequently, all of the estimated job-creation benefits of the CIP projects are overstated to the extent that out-of-state workers are employed on these projects. And consequently, only by insuring that local workers are hired on Hawaiian public works can the state be assured that it will reach the number of jobs created or preserved that it thinks it is getting from Hawaiian federal stimulus money and Hawaiian tax dollars. And speaking of tax dollars, only by insuring that local workers receive preferential

Hawaii can send out travelers too. But because Hawaii is a high-wage state, more travelers are attracted to Hawaii that are attracted from Hawaii.

Also, because Hawaii is a small state, Hawaiians traveling out can easily be swamped by mainlanders traveling in.

Also, currently, unemployment rates are highest in states such as California and Nevada which are near Hawaii and in Southern states which have the lowest construction wages compared to Hawaii.

Without the protection of local hire preferences on public works, Hawaii risks losing many of the benefits of local public works expenditures.

hiring on Hawaiian public works, can the state maximize its own tax revenues from the jobs created by federal and state stimulus money. Alternatively stated, when local construction workers are hired more non-construction jobs are created generating more tax revenues helping to offset the original cost of hiring those construction workers in the first place. When non-local construction workers are hired, fewer non-construction jobs are created and the tax burden of hiring the construction workers in the first place gets heavier.

Currently, the media is closely covering the problems with leakages in the federal stimulus money designed to boost energy self-sufficiency and green jobs. For instance, a very recent newspaper article reported:

> Of the more than $2 billion the federal government has given out to boost the economy and create green-energy jobs, more than three-quarters has gone to foreign-owned companies that dominate the wind-power industry.[10]

When three-quarters of that $2 billion in stimulus money leaks out to overseas operations, the income generated by that money gets spent overseas and the local benefit of that new income is lost. You get the windmills but you get little else. Hawaii faces a similar problem with non-local construction workers. You get the highway or the stadium but little else. Unfortunately, less attention has been paid to out-of-state workers in Hawaii and how they blunt the stimulus effect of state and federal money spent for Hawaiian public construction work.

This report remedies that omission by outlining the leakages of direct jobs inside Hawaii construction and indirect jobs in the Hawaiian economy in general plus the loss of state tax revenues associated with the failure to protect Hawaiian workers' preferential access to Hawaiian public construction projects.

The media is covering the "leakage" of federal stimulus dollars overseas in the $2 billion allocated for green jobs, three-fourths of which may stimulate foreign economies rather than our own.

Hawaii faces a similar problem with out-of-state construction workers leaking state and federal stimulus dollars to the mainland.

" Construction is a vital industry in Hawaii's economy. Without it we would not have much of an economy."

--Department of Business, Economic Development and Tourism

State and Local Spending on Public Works Projects and Construction Procurement Drives a Significant Proportion of Hawaii's Economy

In a 2000 report from the Department of Business, Economic Development and Tourism (DBEDT), entitled "Construction and Hawaii's Economy," the Department pointed to the centrality of construction to Hawaii's economy:

> Construction is a vital industry in Hawaii's economy. Without it we would not have much of an economy. The industry builds our homes, businesses, recreation facilities and infrastructure systems like highways, power stations and other utilities. Construction also has a big impact on other industries. The outside loans that fund most local construction inject huge amounts of new money into the state and have a widespread impact on all business activity, very similar to the impact of a major export industry. Alternatively, when the inflow of construction funds slows or stops, the loss of these funds is felt throughout the economy.[11]

The DBEDT goes on to state that government construction expenditures play an unusually important role in Hawaii's construction industry:

> Partly because of the high concentration of Federal military activity in Hawaii, the government sector has played a large role in determining the level of construction, accounting on average for about 36% of the total in the post-statehood period.[12]

In May of 2009, the Association of General Contractors of American (AGC) reported that in Hawaii in 2007:

- Nonresidential construction spending in Hawaii totaled an estimated $1.8 billion.
- This direct nonresidential construction spending in the state contributed a total of $3.6 billion (5.9%) to state GDP of $62 billion.
- Direct nonresidential construction spending in the state added $1.2 billion in additional personal earnings to the benefit of Hawaii residents working in the state.
- A total of 34,000 jobs were supported by the direct and indirect outlays associated with the state's nonresidential construction spending.
- An additional $1 billion in nonresidential construction spending would add about $2 billion to the state's Gross Domestic Product (GDP), about $690 million to personal earnings and create or sustain 19,000 jobs.[13]

The AGC emphasized nonresidential construction because typically government is not involved in residential construction. However, in Hawaii because of the importance of military housing, government construction expenditures are even more important than the AGC states.

Due partly to the importance of the military, government accounts for roughly 36 percent of Hawaii construction.

In 2007, construction accounted for almost 6 percent of state GDP.

The Association of General Contractors (AGC) calculates that $1 billion in state construction spending generates $2 billion in state GDP and $690 million in personal income.

But this assumes that the workers on these construction projects are local.

Hawaii Residents Face Increasing Competition from Out of State Construction Workers Particularly from States with Low Wages and High Unemployment

Relative Size. Figure 2 shows that Hawaii's construction labor force is dwarfed by those of most states. For every Hawaiian construction worker there are 20 in California, 14 in Texas, 10 in Florida, 5 each in North Carolina, Georgia and Virginia, 4 in Washington state, 3 each in Arizona, Colorado, Louisiana, Alabama and 2 each in Oregon, Nevada and Utah. In short, there is no way Hawaii could flood these states with construction workers, but many of these states and certainly many combinations of these states could flood Hawaii with workers. All it takes is the right combination of proximity, wage differentials, unemployment stress and visible large projects in Hawaii.

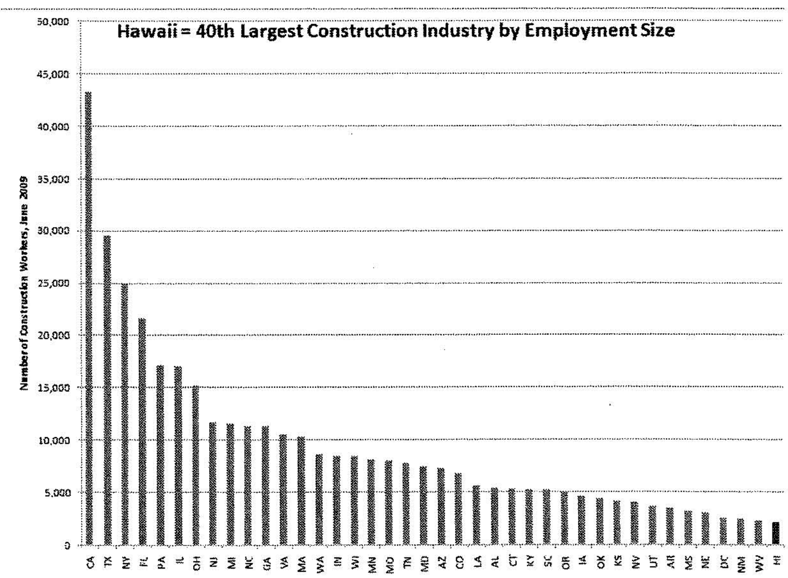

Figure 2: Employment Size of the Construction Industry by State, June 2009, for Hawaii and the 39 States Larger than Hawaii. Source: U.S. BLS Quarterly Census of Employment and Wages (QCEW)

Wages. Hawaii, along with Alaska, is the highest paying state for construction workers. This is due in part to Hawaii's higher cost of living. In 2009, only New York City had a higher cost-of-living than Honolulu.[14] Figure 3 shows that on average, Hawaii weekly wages are 37 percent higher for highway, bridge

For every Hawaiian construction worker there are 20 in California, 14 in Texas, 10 in Florida, 5 each in North Carolina, Georgia and Virginia, 4 in Washington, 3 each in Arizona, Colorado, Louisiana, Alabama, and 2 each in Oregon, Nevada and Utah.

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and other heavy construction workers compared to the state-by-state average weekly wages on the mainland (including Alaska). The figure also shows that Hawaii wages are 61 percent higher than those of comparable construction workers in Southern states.

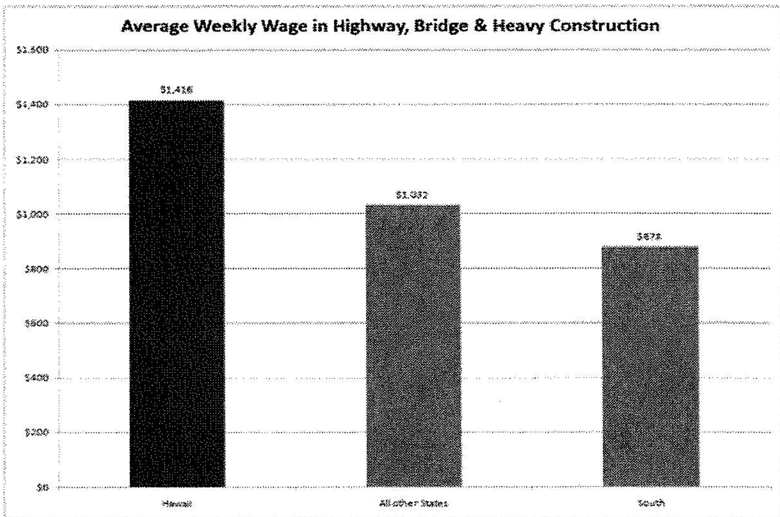

Figure 3: Average Weekly Wages in Highway, Bridge and Heavy Construction, Hawaii, All Other States and Southern States, Qtr2 2009 Source: U.S. BLS Quarterly Census of Employment and Wages (QCEW)

Figure 4 looks at selected Southern and Western states and shows the average weekly wage for Hawaiian construction workers again on highways, bridges, and other heavy construction in comparison to nearby Western and low-wage Southern states. We select highway workers because these are typically working on public construction, and we select Western and Southern states because the closer states and the states with the lower wages are the states most likely to send workers to Hawaii.

As one can see from Figure 4, Hawaii's remuneration is 5 to 10 percent higher than California or Nevada, 15 percent to 30 percent above Oregon or Washington, 33 percent to 60 percent above Texas and Florida. These wage incentives serve as a magnet drawing workers to Hawaii and a deterrent in drawing workers from Hawaii. This is the primary and lasting asymmetry which disproportionately exposes Hawaii residents to competition from out-of-state workers and similarly disproportionately exposes Hawaii taxpayers to leakages of federal and state public works stimulus money. But the lasting wage differential between Hawaii and the mainland is being reinforced in this economic crisis with differential unemployment rates.

For typical public project construction workers, Hawaii wages are 37 percent higher than the national average and 61 percent higher than the low-wage South.

Hawaii wages are higher, in part, because Hawaii cost-of-living is higher. But traveling construction workers can avoid much of Hawaii's cost-of-living by packing into crowded apartments, working packed-in construction schedules and not having their families along.

So travelers get a two-for-one: higher Hawaii wages and lower back-home cost-of-living.

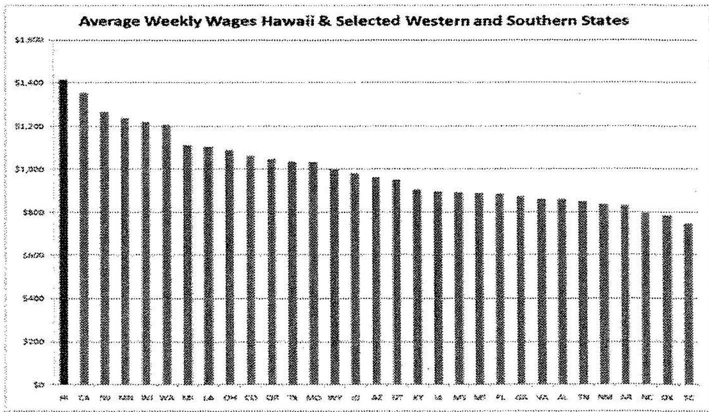

Figure 4: Average Weekly Wages in Highway, Bridge and Heavy Construction, Hawaii and Selected Western and Southern States, Qtr2 2009. ,Source: U.S. BLS, Quarterly Census of Employment and Wages (QCEW)

Unemployment

Figure 5 shows that high unemployment rates currently are concentrated in Western states and the South with parts of the Midwest also impacted. For the most part, these high unemployment states are either nearest to Hawaii or they have the lowest construction wage rates relative to Hawaii. So Hawaiian construction workers are faced with a double whammy. Their nearby competitors are disproportionately out of jobs and their lowest-wage competitors are disproportionately out of jobs.[15] This puts Hawaii jobs on the radar for many mainland construction travelers.

And the problem is getting worse. *Time Magazine* reported in February, 2010:

> Nationally, unemployment fell to 9.7% in January, but in construction it jumped to 24.7% from 18.7% in October. In many regions, union officials report 30% of their members are unemployed or "riding the bench."

From Florida, *Time* quotes Jerry Rhoades, executive secretary treasurer of the Florida Carpenters Regional Council as stating:

> In the summer of 2009, there were 800 jobs on the books to build across the state. We do commercial, high-rise residential and power plants. The permits were ready, but the financing dried up. I am in my 60s and I've never experienced a downturn like this. Three years ago, three contractors would bid on a project. Now 90 contractors bid on a project. That is how desperate people are.

Unemployment in construction is increasing competition from the mainland.

"Nationally, unemployment fell to 9.7% in January, but in construction it jumped to 24.7% from 18.7% in October."

" Three years ago, three contractors would bid on a project. Now 90 contractors bid on a project. That is how desperate people are."

From California *Time* reports:

> A tour of downtown Los Angeles and the industrial warehouse area to the south finds busy jobs sites few and far between. In Vernon, Oltmans Construction Co., ranked as one of the nation's elite "Top 400 Contractors" by Engineering News Record, is completing a gleaming white 60,000 square foot warehouse and office space. ... Asked if business is picking up, Oltmans Project Manager James Wu, 37, says, "I have not seen it. It's not looking good ahead." In downtown Los Angeles, just east of Little Tokyo, one of the only active construction sites is a 53-unit apartment building at Alameda and 4th Street. Valentin Marquez, 41, father of four, does foundation and concrete work. Before this job he says he was out of work for a year. He is now struggling to keep his house. "The company I worked for for 18 years went bankrupt," he says.

From the Northeast, *Time* quotes carpenter Mark Erlich:

> Commercial construction workers are in a bind. Before, if work dried up in Boston or Seattle, carpenters, electricians and plumbers would pack up and go to Las Vegas or Texas or Alaska. "Now there is no work anywhere."

From the Northwest, *Time* quotes union carpenter Eric Franklin:

> In the Northwest, the contraction in commercial construction came late ... "We're at the bottom now." Across a membership of 26,000 in 42 locals in five states unemployment ranges from 21% to 35%. One bright spot: a few big public projects on the horizon...[16]

Thus, as the Great Recession takes its toll, construction workers and construction contractors are becoming more desperate and more willing to look to job prospects, especially visible, large public works, far from home. This exposes Hawaiian construction workers to increased competition locally from workers as far away as anywhere on the mainland, especially those states with high unemployment and low wages.

"Commercial construction workers are in a bind. Before, if work dried up in Boston or Seattle, carpenters, electricians and plumbers would pack up and go to Las Vegas or Texas or Alaska. 'Now there is no work anywhere.'"

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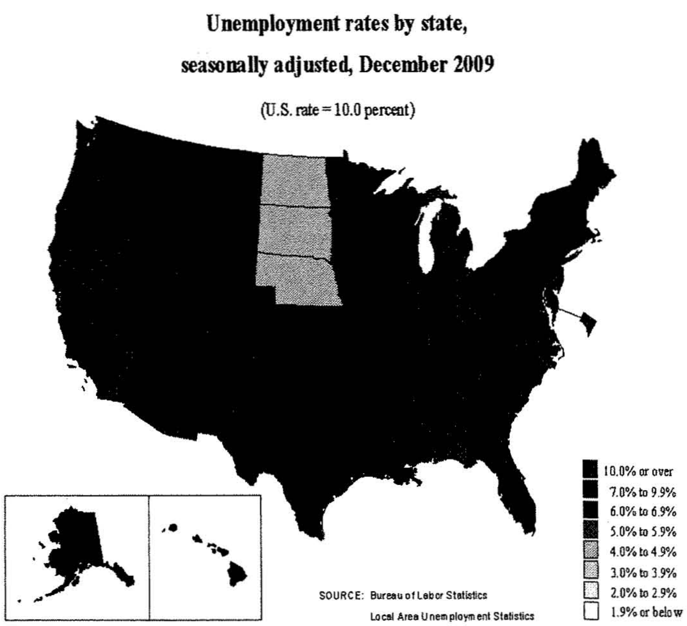

Figure 5: Seasonally adjusted state unemployment rates, December 2009 (Hawaii unemployment rate=6.9% seasonally adjusted). Source: U.S. BLS LAUS

Figure 5 shows the December 2009 state-by-state unemployment rate for all industries. Typically, construction is about double the overall unemployment rate. The 50-state average was 10 percent unemployment. High rates of unemployment were concentrated in the South and the West. Thus, the states nearest Hawaii and the states with the lowest wages relative to Hawaii were also the states with the highest unemployment rates. Hawaii, in contrast had relatively low unemployment with 6.9 percent of all workers unemployed--correspondingly, approximately 14 percent of construction workers would be unemployed.

Thus, Hawaii construction workers are under considerable competitive pressure from very big states (California and Florida), nearby states (California, Oregon and Nevada) and very low-wage states (the entire South). Without the protection of preferential local hire on Hawaii public works, this is a perfect storm which not only threatens Hawaii construction workers but also threatens the efficacy of the Governor's CIP projects.

In the subsequent sections, we will use IMPLAN, a standard employment impact model, to calculate the leakages from the Hawaii economy associated with out-of-state construction workers and the associated loss of jobs for Hawaiians and tax revenues for state and local government.

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This is a perfect storm which not only threatens Hawaii construction workers but also threatens the efficacy of the Governor's CIP projects.

Economic Impact of Out-Of-State Construction Workers on the Hawaiian Economy

The Hawaii Governor's office and other private estimates of the stimulus effects of public works construction all assume that the workers on these projects are local and that their incomes will be spent locally. However, to the extent that contractors employ out-of-state workers, the use of nonresident construction employees on public works projects represents a leakage out of the Hawaiian economy that is associated with reduced economic activity. When these workers send a large portion of their income out-of-state, the economic impact is similar to that associated with an employer who moves out of Hawaii. In either case, local economic activity is directly reduced by the loss of employee income. The loss of income also induces further reductions in economic activity as the secondary jobs, that are created and supported by the in-state disposal of income, are lost. Thus, to the extent that workers on public construction projects are from out-of-state, the estimates of the local benefits of these projects are overestimates of the local job creation both on and off construction. In this section, we estimate through a leakage-reduction analysis, the loss of jobs outside of construction and the loss of economic activity and tax revenue associated with the employment of non-state residents in Hawaiian public works construction.

The proposed policy requiring 80 percent Hawaiian resident workers for public construction projects would reduce this potential leakage from the Hawaiian economy. We examine the effect of this policy by comparing the leakage impacts under different out-of-state worker scenarios. In most of our illustrations, we compare the impact of selected construction projects when either 33 percent or alternatively 80 percent of the work is done by Hawaiian residents. We also use one example from the Aloha Stadium refurbishment project where all of the construction employees for this project are known to be out-of-state workers. Specifically, we estimate the impact of the leakage of employee compensation, net of the amount out-of-state workers spend in Hawaii during the construction period. This is an income leakage analysis in contrast to the impact analyses used by the Governor's office in estimating the employment effect of additional public works spending. The Governor's analysis implicitly assumes that all of the construction workers on Hawaii public work projects are Hawaiian residents. Our analysis relaxes this assumption in order to measure the induced decreases in employment, economic activity, and tax revenues associated with nonresidents taking 20 percent or

Economic Impact of Out-of-State Construction Workers

When nonresident construction workers send a large portion of their income out-of-state, the economic impact is similar to that associated with an employer who moves out of Hawaii. In either case, local economic activity is directly reduced by the loss of employee income.

This is an income leakage analysis that compares the impact of selected construction projects when either 33 percent or alternatively 80 percent of the work is done by Hawaiian residents.

alternatively 67 percent of these public works construction jobs.

To do this, we examine the loss-impact created by the leakage of construction worker compensation and construction worker spending on the Hawaiian retail and service sectors. We estimate these impacts associated with 1) the Aloha Stadium Refurbishment Project, 2) the Federal Stimulus funds allocated to Hawaii, 3) the 2008 state expenditures on capital improvements, 4) one of the alternatives from the proposed Honolulu High-Capacity Transit Corridor Project, and 5) the revised 2008-2009 State Capital Improvement Project.

Construction cost data are available for each of these approved or proposed projects. We use output per worker data obtained from the 2007 Economic Census of Construction to determine the corresponding level of construction worker employment associated with each of these projects. We also collect salary data for the Hawaiian construction industry from the Quarterly Census of Employment and Wages to estimate employee compensation for each project. The employee compensation data for out-of-state workers are adjusted for per diem expenses. The salary and output per worker data for specific construction industry sectors are matched with the characteristics of the selected projects. For example, we use different salary and output per worker data for projects involving heavy and civil engineering construction, versus the paving, framing, and seat replacement activity associated with the stadium project.[17] We use the IMPLAN input-output model to estimate the effect of the net leakage of construction worker income on the state economy. All results are reported in 2010 dollars.

We use construction cost, output per worker, and salary data for the Hawaiian construction industry to calculate employee compensation for each project. The employee compensation data for out-of-state workers are adjusted for per diem expenses.

We use IMPLAN, an input-output model, to measure how a change in employee compensation in the construction industry affects transactions between Hawaiian businesses and households.

IMPLAN Input-Output Software

IMPLAN (IMpact analysis for PLANning) was originally developed by the U.S. Department of Agriculture to assist the Forest Service with land and resource management planning. The Minnesota IMPLAN Group (MIG) started work on the model and data in the mid-1980s at the University of Minnesota. The software was privatized in 1993 and made available for public use. The software contains an input-output model with data available at the zip-code, county, state, and national levels.

Input-output analysis measures the inter-industry relationships within an economy. Specifically, input-output analysis is a means of measuring the market transactions between businesses and between businesses and consumers. This framework allows for the examination of a change in one sector on the entire economy. In this way, input-output analysis is able to measure how a change in employee compensation in the construction industry affects transactions between Hawaiian businesses and households. In addition to capturing market transactions within an economy, IMPLAN also measures social accounting, or non-market flows such as tax payments by individuals and businesses, government transfers, and transfers between individuals. The benefit of these social accounts is the estimation of federal, state, and local taxes associated with an economic impact. Specifically, IMPLAN provides estimates of total state and local taxes from employee compensation, indirect business taxes (excise, sales, property, etc.), households (income, property, motor vehicle, etc.) and corporations (dividends and profits).

The IMPLAN trade flows are based on U.S. national averages that may not be applicable to individual states. Hawaii's use of excise taxes, rather than sales taxes, is an example of this inconsistency. IMPLAN provides an estimate of the total state and local tax revenue associated with an economic impact. Our results below indicate that the IMPLAN tax multiplier for Hawaii is approximately 0.07. This is based on a mix of taxes on food, health, and real estate services, as well as retail goods. The 2005 State Input-Output Study for Hawaii developed by the Department of Business, Economic Development, and Tourism (DBEDT) reports state tax multipliers for food, health, and real estate services ranging from 0.06 to 0.10. The tax multiplier for Hawaiian retail items ranges from 0.18 to 0.21. Our analysis indicates that most of the spending leakage associated with out-of-state construction workers affects the food, health, and real estate sectors where the DBEDT tax multipliers are closer to the IMPLAN tax effects. Still, the IMPLAN tax impacts reported below can be thought of as conservative or lower end estimates.

IMPLAN measures the loss in economic activity, jobs and state and local tax revenue associated with the use of out-of-state construction workers.

IMPLAN is a widely used computer model for estimating local economic impacts of new construction and other activities.

Aloha Stadium Project: Replacement of Roof Deck and Transformers.

As mentioned above, all of the construction workers on this project are from out-of-state. The cost of this project was $10.5 million.[18] We estimate that this project involved 50 construction workers. This project provides a specific illustration of the impact of the 80 percent residential requirement. The results reported in Table 1 indicate that economic activity associated with the project decreased by approximately $1 million when all workers were from out of state. With the 80 percent resident requirement, the economic activity associated with this project decreases by only about $200,000 (with a hypothetical 20 percent of the workers being out-of-state). Alternatively stated, the economic activity associated with this project would have been approximately $800,000 greater if the 80 percent resident policy had been in effect and the contractor used only 20 percent out-of-state workers. About six more Hawaiian jobs would have been saved and state and local taxes would have been higher by approximately $57,000, had the resident requirement policy been applied to this project.

Aloha Stadium: Replacement of Roof Deck and Transformers.

The economic activity associated with the project decreases by approximately $1 million when all workers are from out of state. With the 80 percent resident requirement, the economic activity associated with this project decreases by about $200,000.

Project: Aloha Stadium: Replacement of Roof Deck and Transformers, $10.4 million
Leakage Impacts: With All Workers Out-Of-State and with 80% Percent Requirement

Table 1: Aloha Stadium Roof Deck Replacement

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	State and Local Tax Loss
All Out-Of-State Workers	–$1,005,000	– 8 Jobs	–$71,700
80 Percent Hawaiian Residents	–$204,000	–1.6 Jobs	–$14,400

Source: IMPLAN. Results reported in 2010 dollars.

Aloha Stadium Project: $185 Million Refurbish.

In 2008, the State of Hawaii approved $185 million to refurbish the Aloha Stadium.[19] We estimate that this project would employ approximately 740 construction workers. In this section we compare the impacts of two scenarios. The first assumes that the project is completed with 33 percent Hawaiian resident construction workers. The impact for the second scenario is based on the assumption that the proposed 80 percent resident requirement is in effect. The results reported in Table 2 indicate that building the project with predominantly out-of-state workers is associated with a reduction in state economic activity of about $16.4 million. The leakage impact with 80 percent resident construction workers is about $4.9 million. In other words, the economic impact of this project on the local economy would have been higher by about $11 million, had the proposed policy been in effect and the contractor used all of his allocated 20 percent nonresident workers. Hawaiian employment is higher by approximately 90 jobs under the policy. State and local taxes are higher by approximately $800,000 with the 80 percent requirement. In contrast, the Hawaiian economy would not experience any of this type of income leak impact if the project was done with 100 percent local workers.

$185 Million Aloha Stadium Project

Building the project with predominantly out-of-state workers is associated with a reduction in state economic activity of $16.4 million. The leakage impact with 80 percent resident construction workers is about $4.9 million.

The economic impact of this project would have been $12 million greater had the proposed policy been in effect

Project: Aloha Stadium Refurbish, $185 million
Leakage Impacts: With 67 Percent Out-Of-State and with 80% Percent Requirement

Table 2: Aloha Stadium Refurbish $185 million

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	Tax Loss
33 Percent Hawaiian Residents	–$16,339,520	–130 Jobs	–$1,166,583
80 Percent Hawaiian Residents	–$4,875,500	–39 Jobs	–$348,094

Source: IMPLAN. Results reported in 2010 dollars.

Federal Stimulus Funds: $199 Million[20]

Overall, the federal funds from the American Recovery and Reinvestment Act will have a positive impact on the Hawaiian economy. However, this impact is reduced to the extent that workers from out-of-state are employed. For example, results reported in Table 3 indicate that the economic activity related to the stimulus is reduced by $12.4 million if 67 percent of construction workers are not state residents. The reduction in economic activity is about $3.7 million if 80 percent of the construction workers are Hawaiian residents. Again, there is no reduction if all workers are local. The economic activity associated with the stimulus funds is $8.7 million greater if the resident requirement policy is in effect and the contractor uses all of his allotted nonresident employees. The policy preserves about 70 Hawaiian retail and service sector jobs and state and local taxes are about $650,000 greater under the local resident policy. These estimates are based on 500 construction workers employed on this project. To the extent that federal law bars the application of the policy to a particular project, the benefits of that project will be reduced accordingly.

Project: Federal ARRA Highway Stimulus Spending, $199 million
Leakage Impacts: With 67 Percent Out-Of-State and with 80% Percent Requirement

Table 3: Federal ARRA Highway Stimulus Spending, $199 million

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	Tax Loss
33 Percent Hawaiian Residents	–$12,468,982	–99 Jobs	–$925,112
80 Percent Hawaiian Residents	–$3,722,084	–30 Jobs	–$276,153

Source: IMPLAN. Results reported in 2010 dollars.

Federal Stimulus Funds

The economic activity related to the stimulus is reduced by $12.4 million if 67 percent of construction workers are not state residents.

Compared to 100 percent Hawaii workers, the stop-loss reduction in economic activity under the regulation is about $3.7 million if the contractors use their entire allotment under the proposed regulation of 20 percent nonlocal construction workers.

Thus, the proposal sets a ceiling or stop-loss on the leakage effect of employing nonlocal construction workers.

Without the regulation, there is no stop-loss and leakages could lead to three times greater losses or more.

State Capital Expenditures: $1.3 Billion in State Funding for 2008[21]

In 2008, the State of Hawaii spent $1.5 billion on capital improvements. To focus on the impact of the leakage of state money, we subtract the federal contribution and base our impact on the approximately $1.3 billion in capital expenditures funded by the state. We estimate that this portion of the project will directly employ about 3,700 construction workers. When the projects funded by these expenditures employ out-of-state construction workers, state funds leave Hawaii. The results for this project are reported in Table 4. If the projects funded by these expenditures employ predominantly out-of-state construction workers, the total impact of the income leakage on the economy is an approximate $83 million reduction in economic activity. Over 600 jobs are lost as the income of out-of-state workers leaves the state, under the 67 percent nonresident scenario. Under this scenario, local and state governments receive approximately $6 million less in tax revenue. Under the 80 percent resident policy, the income leakage associated with the hypothetical use of 20 percent nonresident workers is about $24 million. Or, the policy increases economic activity associated with state capital expenditures by approximately $58 million. The policy would increase state and local tax revenues by $4.2 million and save about 470 local jobs.

Project: Hawaii State Capital Expenditures, Net of Federal Funds, $1.296 billion
Leakage Impacts: With 67 Percent Out-Of-State and with 80% Percent Requirement

Table 4: Hawaii State Capital Expenditures, Net of Federal Funds, $1.296 billion

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	Tax Loss
33 Percent Hawaiian Residents	–$82,792,840	–660 Jobs	–$5,911,115
80 Percent Hawaiian Residents	–$24,377,510	–194 Jobs	–$1,740,468

Source: IMPLAN. Results reported in 2010 dollars.

2008 State Capital Expenditures

When the projects funded by these expenditures employ out-of-state construction workers, state funds leave Hawaii.

The income leakage effect is approximately $83 million when projects are completed by predominantly out-of-state workers.

Under the 80 percent resident policy, the income leakage associated with the hypothetical use of 20 percent nonresident workers is about $24 million

Under the regulation, contractors may use 100 percent local workers, or 95 percent local workers or any percentage down to the stop-loss level of 80 percent local workers and 20 percent nonlocal.

Honolulu High-Capacity Transit Corridor Project: Airport and Salt Lake Alternative, $4.8 Billion

In 2008, the City and County of Honolulu and the U.S. Department of Transportation evaluated fixed-guideway alternatives that would provide high-capacity transit service on Oahu.[22] We use the Airport and Salt Lake Alternative to illustrate the impact associated with different levels of out-of-state construction workers. We estimate that this project would directly employ 12,000 construction workers. In 2008, the estimated cost of this project was $4.8 billion.[23] The federal contribution to this project would have a positive impact on the state economy. The results reported in Table 5 provide estimates of the reduction in the overall economic impact with different scenarios regarding the percent of out-of-state workers. The results indicate that if 67 percent of the workers on this project are residents of other states, the economic activity associated with this project would be reduced by approximately $300 million. This reduction in economic activity would be associated with a reduction of $22 million in state and local tax revenue. Over 2,300 jobs in the Hawaiian retail and service sector would be lost. With the 80 percent resident requirement and the use of 20 percent out-of-state workers, the economic activity associated with this fixed-guideway alternative would be approximately $210 million greater. Job losses would be 700, instead of 2,300. State and local tax revenues would be about $15.6 million greater.

High-Capacity Transit Corridor

If 67 percent of the workers on this project are residents of other states, the economic activity associated with this project would be reduced by approximately $300 million.

With the 80 percent resident requirement the economic activity associated with this fixed-guideway alternative would be approximately $210 million greater.

Without the proposed regulation's stop-loss ceiling on nonlocal workers, at least 1672 more jobs are lost and at least $15 million more in tax revenues are lost.

Project: Honolulu High-Capacity Transit Corridor Project: Airport and Salt Lake Alternative, $4.8 billion
Leakage Impacts: With 67 Percent Out-Of-State and with 80% Percent Requirement

Table 5: Honolulu Transit Corridor Project: Airport and Salt Lake Alternative, $4.8 billion

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	Tax Loss
33 Percent Hawaiian Residents	–$299,255,520	–2,383 Jobs	–$22,202,699
80 Percent Hawaiian Residents	–$89,330,016	–711 Jobs	–$6,627,671

Source: IMPLAN. Results reported in 2010 dollars.

Hawaii Capital Improvement Project, $4.5 Billion[24]

During 2008 and 2009 the Hawaiian State Legislature budgeted and approved 2,308 public works projects totaling $4.5 billion. These fiscal steps were taken to revitalize the economy and to modernize the public infrastructure. The Governor's office estimated that three construction workers will be employed for each $1 million in construction expenditures. This suggests that approximately 13,500 workers will be employed over the construction period. The data reported in Table 6 indicate that if this project is completed with predominantly nonresident construction workers, the stimulatory effect of these public projects will be reduced by approximately $297 million. The tax revenue loss associated with this decline in economic activity is about $21 million. This leakage from the Hawaiian economy would result in the loss of approximately 2,300 jobs.

On the other hand, if the 80 percent resident requirement is in effect, the leakage impact on the economy if 20 percent of the construction workers are non-resident is about $88 million. This reduced economic activity is associated with a state and local tax revenue loss of about $6.4 million. If contractors use 80 resident workers the job loss associated with the use of 20 percent out-of-state workers is about 700 jobs.

The stimulatory impact of the capital improvement projects is $210 million greater if the 80 percent resident requirement applies, and contractors employ only 20 percent out-of-state workers. Employment is higher by about 1,600 workers if the 80 percent resident policy applies to these projects and state and local tax revenue increase by approximately $15 million. The goal of revitalizing the economy through capital improvement projects would be maximized if 100 percent of the construction work was completed by resident workers. However, the 80 percent resident plan is much more effective in achieving this goal than an arrangement that relies predominantly on out-of-state work.

2008-2009 Capital Improvement Project

If this project is completed with predominantly nonresident construction workers, the stimulatory effect of these public projects will be reduced by approximately $297 million.

If the 80 percent resident requirement is in effect, the leakage impact on the economy would be set at a stop-loss of no more than $89 million.

Contractors are of course free under the regulation not to use any or all of their allowed 20 percent nonlocal workers. If they do not use any, then there is no leakage loss associated with travelers sending remittances home.

The proposed legislation set a stop-loss ceiling on the dampening effect of using nonlocal construction workers.

Project: Hawaii Capital Improvement Project, $4.5 Billion
Leakage Impacts: With 67 Percent Out-Of-State and with 80% Percent Requirement
Table 6: Hawaii Capital Improvement Project, $4.5 Billion

Percent Hawaiian Workers	Total Leakage Effect	Job Loss	Tax Loss
33 Percent Hawaiian Residents	–$297,965,100	–2,373 Jobs	–$21,273,652
80 Percent Hawaiian Residents	–$88,944,940	–708 Jobs	–$6,350,354

Source: IMPLAN. Results reported in 2010 dollars.

The relatively large number of job losses associated with either of the scenarios for the capital improvement projects provides an opportunity to identify the industries that are affected by the income leakage and the relative impact each scenario has on employment in the Hawaiian retail and service sectors. These results are reported in Table 7 below. The total job loss if 67 percent of construction workers are out-of-state is 2,373. Just over 700 hundred jobs are lost if the 80% resident requirement is in effect and contractors use 20 percent out-of-state workers. This suggests that the policy would preserve about 1,670 Hawaiian jobs. Food services and drinking places are most adversely affected when income flows from the state. If 33 percent of construction workers are residents, this sector loses about 230 jobs. Less than 70 food service jobs are lost if 80 percent of construction workers are residents suggesting that the policy saves about 160 food service jobs in the state. We list the top 16 industries that experience the greatest employment loss with the two scenarios. These industries represent about 54 percent of the total job loss associated with either scenario indicating that the out-of-state income leakage is widely spread over the Hawaiian retail and service sectors.

2008-2009 Capital Improvement Project

The total job loss if 67 percent of construction workers are out-of-state is 2,373 jobs.

With the stop-loss ceiling on out-of-state workers, no more than 708 jobs are lost due to the use of nonlocal workers, and contractors are of course free to use fewer or no out-of-state workers.

Similarly, without the stop-loss ceiling on nonlocal workers, at least $15 million more in tax revenues are lost. Compared to using all Hawaiian resident construction workers, the tax revenue loss is $21 million and the job loss is almost 2400 jobs.

Job Loss by Industry

Job Loss by Industry with 33 Percent and 80 Resident Construction Workers.

2008-2009 Capital Improvement Projects

Table 7: Job Loss by Industry with 33 Percent and 80 Percent Resident Construction Workers.

Industry Name	33% Residents	80% Requirement
Total Job Loss	-2,373.00	-708
Food services and drinking places	-230	-68
Real estate establishments	-133	-40
Offices of physicians, dentists, and other health practitioners	-131	-39
Private hospitals	-91	-27
Wholesale trade businesses	-88	-25
Private household operations	-83	-25
Retail Stores - Food and beverage	-81	-24
Retail Stores - General merchandise	-74	-22
Retail Nonstores - Direct and electronic sales	-60	-18
Nursing and residential care facilities	-53	-16
Retail Stores - Motor vehicle and parts	-48	-14
Employment services	-48	-14
Individual and family services	-44	-13
Civic, social, professional, and similar organizations	-41	-12
Automotive repair and maintenance, except car washes	-40	-12
Retail Stores - Clothing and clothing accessories	-40	-11.9

Source: IMPLAN. Results reported in 2010 dollars.

2008-2009 Capital Improvement Project

Food services and drinking places are most adversely affected when income flows from the state.

The 80 percent resident policy saves about 160 food service jobs in the state

The job loss is widely spread over the Hawaiian retail and service sectors.

The stop-loss ceiling on nonlocal construction workers does not change the distribution of lost jobs caused by the dampening effect of employing construction travelers.

But it limits the overall spread of losses to about one-third of what they would be if unregulated contractors employed 67 percent nonlocal workers.

Summary and Conclusion of Economic Impact Analysis

In sum, the economic activity associated with state and federally funded public works projects is about 70 percent larger if contractors use 20 percent nonresident workers instead of 67 percent out-of-state employees. This is the case if the impact is measured in terms of dollars, jobs, or state and local tax revenue.

The flow of dollars into, and out of, a region is an important determinant of economic activity. And, these flows are crucial to the Hawaiian economy. For example, data from the University of Hawaii Economic Research Organization (UHERO) indicates that visitor spending represented 17.7 percent of Hawaiian GDP in 2008. However, the tourism economy peaked in 2007 at $12.45 billion. By 2009, visitor spending had fallen to $9.96 billion. With a reduced flow of tourism dollars into the state economy, the leakage associated with the use of out-of-state construction workers becomes an increasing drain on the Hawaiian economy. The 80 percent local rule puts a 20 percent ceiling on the use of nonlocal construction workers and a stop-loss on the potential leakages from the Hawaiian economy associated with the employment of nonlocal workers on public construction. The 80 percent resident requirement for public construction projects is particularly timely in providing balance to the net flow of dollars into the state.

Conclusions

The benefits of local preference in the hiring of public construction workers in Hawaii are fourfold: first, more local construction workers get jobs; second, local businesses experience a greater demand for their goods and services; third, more "induced" jobs are created locally outside of construction and this greater stimulation of the local economy generates greater local and state tax revenues reducing the ultimate burden on the state of financing public construction in the first place. Fourth, Hawaii builds a modern infrastructure to support a world competitive economy. Without local preference in hiring on public works, the first three legs of this table are cut short and Hawaii is shortchanged on the money it spends on public construction.

Furthermore, in times of economic crisis, local preference in hiring on public construction serves as an automatic stabilizer. In Hawaii, economic downturns slow the flow of tourists to Hawaii and speed up the flow of traveling construction workers. Thus, the injection of tourist dollars into the state's economy declines just as the leakages from the state's economy through construction traveler remittances to the mainland increase. Local hire preference regulations activate to stimulate the economy just when they are needed--during the downturn.

Local preference in the hiring of public construction workers in Hawaii is also a fairer way of distributing stimulus money. The federal government already sends more stimulus dollars to larger states. Because these states have bigger construction industries compared to Hawaii, and lower construction wages compared to Hawaii, and currently higher construction unemployment compared to Hawaii, these states in sending construction travelers to Hawaii will swamp the numbers of Hawaiian construction workers going the other way. This will effectively allow mainland states to harvest Hawaii's federal construction stimulus dollars. Unfairly, without local preference in hiring on Hawaiian public construction, mainland states will get a two-for-one deal on federal stimulus money. They will get their own share as determined roughly by state size, and then they will get a second bite of the apple through a substantial piece of Hawaii's share via an injection into their economies through the savings and remittances of their traveling construction workers finding places on Hawaii public works.

Endnotes

[1] 39,800 workers: the state aggregates construction employment data with mining and logging. However, the data collected are dominated by construction employment. Department of Labor and Industrial Relations, Hawaii Workforce Informer, Statewide Seasonally Adjusted Data, January 22, 2010, http://www.hiwi.org/article.asp?PAGEID=94&SUBID=&ARTICLEID=515&SEGMENTID=2
[2] Associated Press Financial Wire, "Report finds Hawaii foreclosures triple in August," September 19, 2007.
[3] http://www.hiwi.org/article.asp?PAGEID=94&SUBID=&ARTICLEID=515&SEGMENTID=2
[4] Hawaii Reporter, "State Advances $1.5 Billion in Construction Projects Statewide to Stimulate the Economy, Create Jobs, Modernize Public Infrastructure," December 15, 2009, http://www.hawaiireporter.com/story.aspx?18c7661c-04d3-48a1-8b12-cd62864ead1a
[5] Hawaii 24/7, " State advances $1.69B in construction projects," January 21, 2010, http://www.hawaii247.org/2010/01/21/state-advances-1-69b-in-construction-projects/
[6] The 21,715 direct and indirect jobs in the statewide Hawaiian economy compare in December 2009 to statewide 586,100 seasonally adjusted wage and salary non-farm jobs. The 5050 jobs created or preserved in construction, compare to 31,600 seasonally adjusted wage and salary construction jobs in December 2009. Source: Hawaii, Department of Labor and Industrial Relations, Hawaii Workforce Informer, Current Release, statewide not seasonally adjusted data, http://www.hiwi.org/admin/uploadedPublications/518_JCEST.PDF. NOTE: the construction employment number also includes a small number of mining employees.
[7] Hawaii Reporter, "State Advances $1.5 Billion in Construction Projects Statewide to Stimulate the Economy, Create Jobs, Modernize Public Infrastructure," December 15, 2009, http://www.hawaiireporter.com/story.aspx?18c7661c-04d3-48a1-8b12-cd62864ead1a
[8] Military personnel may be a second example, but in non-overseas assignments, typically the military assigns personnel for longer stays than the length of work for a particular craft on a construction site. Also, many military personnel coming to Hawaii bring their families while for most traveling blue collar construction workers, their families stay at home. Also, traveling construction workers, by living in crowded apartments or other temporary living conditions, may be better able to minimize their living expenses. Nonetheless, military personnel in Hawaii are a second important example of temporary workers.
[9] U.S. House Transportation Committee, "Additional T&I Committee Infrastructure Investment Formula Funding provided under P.L. 111-5, the American Recovery and Reinvestment Act of 2009," http://transportation.house.gov/Media/file/Full%20Committee/Stimulus/20090311%20Highway%20and%20Bridge%20Investment%20by%20State%20and%20Large%20Ubanized%20Areas.pdf
[10] Brook Williams and Kevin Crowe, "Foreign energy firms getting windfall of U.S. stimulus funds," The San Diego Union Tribune, February 9, 2010, p. A1.
[11] Department of Business, Economic Development and Tourism, "Construction and Hawaii's Economy," May 2000, p. 1, http://hawaii.gov/dbedt/info/economic/data_reports/hawaii-econ/he0500.pdf.
[12] DBEDT, "Construction and Hawaii's Economy," p. 5.
[13] Ken Simonson, Chief Economist, AGC of America, simonsonk@agc.org, from Prof. Stephen Fuller, George Mason

University; and U.S. Government sources, The Economic Impact of Construction in Hawaii, Updated: May 26, 2009, http://www.agc.org/galleries/econ/HIstim.pdf.

[14] ACCRA cost-of-living index reported by the Council for Community and Economic Research, http://www.coli.org/pdf/MediaRelease2009Q1.pdf

[15] State construction unemployment rates typically mirror the overall state unemployment rate but at double the level. So when a state's unemployment rate is at 7 percent, the construction unemployment rate will be at 14 percent.

[16] Kevin O'Leary, "The Great Recession: Will Construction Workers Survive?" Time Magazine, February 6, 2010 http://www.time.com/time/nation/article/0,8599,1960639,00.html

[17] Our approach is similar to the formula used by the Governor's office which estimates that for every million dollars, three direct construction jobs are created. However, we drill down more specifically to the types of projects we are considering. In general, our approach is more conservative than the Governor's both because it is project specific and because in some cases it estimates fewer jobs created per million dollars in construction.

[18] See: http://hawaii.gov/gov/news/releases/2008/governor-lingle-releases-11-million-for-aloha

[19] See: http://www.gamespot.com/users/RTJP/show_blog_entry.php?topic_id=m-100-25455231

[20] See: Additional T&I Committee Infrastructure Investment Formula Funding provided under P.L. 111-5, the American Recovery and Reinvestment Act of 2009

[21] See: http://hawaii.gov/dbedt/info/economic/databook/Data_Book_time_series/

[22] See: Economics Technical Report Honolulu High-Capacity Transit Corridor Project, City and County of Honolulu, August 2008.

[23] We are unable to determine the breakdown of state and federal financing for this project and base our impact on the total estimated amount.

[24] Hawaii Reporter, "State Advances $1.5 Billion in Construction Projects Statewide to Stimulate the Economy, Create Jobs, Modernize Public Infrastructure," December 15, 2009, http://www.hawaiireporter.com/story.aspx?18c7661c-04d3-48a1-8b12-cd62864ead1a

FINTestimony

From:	mailinglist@capitol.hawaii.gov
Sent:	Wednesday, February 17, 2010 9:28 PM
To:	FINTestimony
Cc:	Zabal7@msn.com
Subject:	Testimony for HB2736 on 2/18/2010 5:00:00 PM
Attachments:	HB2736_Relating_to_Public_Procurement[1].doc

Testimony for FIN 2/18/2010 5:00:00 PM HB2736

Conference room: 308
Testifier position: support
Testifier will be present: Yes
Submitted by: Al Lardizabal
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Submitted on: 2/17/2010

Comments:

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 17, 2010 10:38 AM
To: FINTestimony
Cc: philips@economics.utah.edu
Subject: Testimony for HB2736 on 2/18/2010 5:00:00 PM

Testimony for FIN 2/18/2010 5:00:00 PM HB2736

Conference room: 308
Testifier position: support
Testifier will be present: No
Submitted by: Peter Philips
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Comments:
A summary of our conclusions can be found on pages 4 through 8 of the report. A brief summary is found on p. 2.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 17, 2010 6:55 AM
To: FINTestimony
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Subject: Testimony for HB2736 on 2/18/2010 5:00:00 PM

Testimony for FIN 2/18/2010 5:00:00 PM HB2736

Conference room: 308
Testifier position: support
Testifier will be present: No
Submitted by: Nathaniel Kinney
Organization: Individual
Address:
Phone:
E-mail: nathanielkinney@me.com
Submitted on: 2/17/2010

Comments:
District Council 50 stands in support of this bill...we are calling it the Local Jobs for Local People bill. We would also like to thank the committee for taking the time to hear this bill and for understanding the importance of public works projects going to the very people who pay the taxes that pay for them!